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INTERNATIONAL TAX SIMPLIFICATION FOR AMERICAN COMPETITIVENESS ACT OF 1999

**HON. AMO HOUGHTON**

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

*Monday, June 7, 1999*

Mr. HOUGHTON. Mr. Speaker, today I am joined by my colleagues, Messrs. LEVIN, SAM JOHNSON, HERGER, MATSUI, CRANE, and ENGLISH in introducing our bill, "International Tax Simplification for American Competitiveness Act of 1999". The world economy is globalizing at a pace unforeseen only a few years ago. Our trade laws and practices have encouraged the expansion of U.S. business interests abroad, but our tax policy lags decades behind—in fact, in many cases, our international tax policy seems to promote consequences that are contrary to the national interest.

In the 1960s, the United States accounted for more than 50 percent of cross-border direct investment. By the mid-1990s, that share had dropped to about 25 percent. Similarly, of the world's 20 largest corporations (ranked by sales), 18 were U.S.-headquartered in 1960. By the mid-1990s, that number had dropped to eight. The 21,000 foreign affiliates of U.S. multinationals now compete with about 260,000 foreign affiliates of multinationals headquartered in other nations. The declining dominance of U.S.-headquartered multinationals is dramatically illustrated by the recent acquisitions of Amoco by British Petroleum, the acquisition of Chrysler by Daimler-Benz, the acquisition of Bankers Trust by Deutsche Bank, and the acquisition of Case by New Holland. These mergers have the effect of converting U.S. multinationals to foreign-headquartered companies.

Ironically, despite the decline of U.S. dominance of world markets, the U.S. economy is far more dependent on foreign direct investment than ever before. In the 1960s, foreign operations averaged just 7.5 percent of U.S. corporate net income. By contrast, over the 1990–97 period, foreign earnings represented 17.7 percent of all U.S. corporate net income.

Over the last three decades, the U.S. share of the world's export market has declined. In 1960, one of every six dollars of world exports originated from the United States. By 1996, the United States supplied only one of every nine dollars of world export sales. Despite a 30 percent loss in world export market share, the U.S. economy now depends on exports to a much greater degree. During the 1960s, only 3.2 percent of national income was attributable to exports, compared to 7.5 percent over the 1990–97 period.

Foreign subsidiaries of U.S. companies play a critical role in boosting U.S. exports—by marketing, distributing, and finishing U.S. products in foreign markets. U.S. Commerce Department data show that in 1996 U.S. multinational companies were involved in 65 percent of all U.S. merchandise export sales. In the 1960s, the foreign operations of U.S.

companies were sometimes viewed as disconnected from the U.S. economy or, worse, as competing with domestic production and jobs. In today's highly integrated global economy, economic evidence points to a positive correlation between U.S. investment abroad and U.S. exports.

At the end of the 20th century, we confront an economy in which U.S. multinationals face far greater competition in global markets, yet rely on these markets for a much larger share of profits and sales, than was the case even a few years ago. In light of these changed circumstances, the effects of tax policy on the competitiveness of U.S. companies operating abroad is potentially of far greater consequence today than was formerly the case.

As we begin the process of re-examining in fundamental ways our income tax system, we believe it imperative to address the area of international taxation. In an Internal Revenue Code stuffed with eye-glazing complexity, there is probably no area that contains as many difficult and complicated rules as international taxation. Further, I cannot stress enough the importance of continued discussion between the Congress and Treasury of simplifying our international tax laws; and in making more substantial progress in regard to eliminating particular anomalies such as with the allocation of interest expense between domestic and foreign source income for computation of the foreign tax credit or in regard to how our antiquated tax rules deal with new integrated trade areas such as the European Union.

None of us is under any illusion that the measure which we introduced removes all complexity or breaks bold new conceptual ground. We believe, however, that the enactment of this legislation would be a significant step in the right direction. The legislation would enhance the ability of America to continue to be the preeminent economic force in the world. If our economy is to continue to create jobs for its citizens, we must ensure that the foreign provisions of the United States income tax law do not stand in the way.

There are many aspects of the current system that should be reformed and greatly improved. These reforms would significantly lower the cost of capital, the cost of administration, and therefore the cost of doing business for U.S.-based firms. This bill addresses a number of such problems, including significant anomalies and provisions whose administrative effects burden both the taxpayers and the government.

The focus of the legislation is to put some rationalization to the international tax area. In general, the bill seeks in modest but important ways to: (1) simplify this overly complex area, especially in subpart F of the Code and the foreign tax credit mechanisms; (2) encourage exports; (3) enhance U.S. competitiveness in other industrialized countries.

The bill would, among other necessary and important adjustments, make permanent the provision regarding the subpart F exception for active financial services income, modify other provisions that apply subpart F of the Code in inappropriate ways, eliminate double taxation by extending the periods to which excess foreign tax credits may be carried, restore symmetry to the treatment of domestic and foreign

losses, and make needed adjustments to the so-called "10/50 company" provisions that burden the joint venture relationships that many of our companies form in their international business relations.

In summary, the law as now constituted frustrates the legitimate goals and objective of American business and erects artificial and unnecessary barriers to U.S. competitiveness. Neither the largest U.S. based multinational companies nor the Internal Revenue Service is in a position to administer and interpret the mine numbing complexity of many of the foreign provisions. Why not then move toward creating a set of international tax rules which taxpayers can understand, and the government can administer? Therefore the proposed changes we believe represent a creditable package and a "down payment" on further reform in the international tax area. We urge our colleagues to join us in cosponsoring this important legislation.

TRIBUTE TO RETIRED COLONEL  
ALICE GRITSAVAGE

**HON. CLIFF STEARNS**

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

*Monday, June 7, 1999*

Mr. STEARNS. Mr. Speaker, I rise to take notice of a special citizen, Retired Colonel Alice Gritsavage. She is a one of a kind person that deserves special recognition.

Ms. Gritsavage resides in my hometown of Ocala, Florida and she has had a remarkable life. Ms. Gritsavage served our nation as a nurse in both World War II and the Korean War. In fact, her outstanding record as an executive Army nurse in World War II influenced General Douglas MacArthur to request that she be named to his staff as Chief Nurse of the Far East Command at the start of the Korean conflict.

I would like to quote from the congratulatory letter Col. Gritsavage received on the date of her departure from the Korean Command on May 28, 1953 from General Mark Clark, Commander in Chief of the United States Army at that time.

General Clark wrote:

You had been in the theatre only a short time when the Communist aggressors threatened world peace by their unprovoked invasion of South Korea. This event required a tremendous build up of medical and hospital facilities, both in Japan and Korea, to care for the wounded of the United Nations. Since that time the standards of the Army Nurse Corps in the Command have reached a level unparalleled in the Corps. Your untiring efforts, outstanding leadership and devotion to duty have set a brilliant example and have been directly responsible for the excellent services performed by our gallant Army Nurses in this, the United Nations first armed bid for world peace.

Col. Gritsavage's dedicated service to our nation led our local chapter of Korean War Veterans to name their chapter after Ms. Gritsavage. At the time of this dedication in 1995, the Ocala chapter was the only one in the nation to be named after a woman—reflecting the importance of Col. Gritsavage to our community.